

SPECIALTY CROP CONTRACTING

Understanding the Terms

Types of Specialty Crops

Portion of Crops Under Contract

Creating Value

Sharing Value

Future Values

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UNDERSTANDING THE TERMS

Coordination

All the ways that output from one stage of production and distribution is transferred to another stage

Vertical Integration

A firm retains ownership of a commodity across two or more levels of activity

Production Contract

Contractor has considerable control over the production process

*Usually specify:
production inputs supplied by contractor
quality and quantity of commodity
compensation*

Management decisions mostly with contractor

Marketing Contract

Price or price premium set before harvest

Ownership retained by producer during production

Management decisions remain with producer

TYPES OF SPECIALTY CROPS

Animal Feed

<i>High oil corn</i>	<i>High protein corn</i>
<i>High lysine corn</i>	<i>High methionine corn</i>
<i>Low phytic acid</i>	

Human Food

<i>Wheat</i>	<i>High protein</i>	<i>White</i>
	<i>High gluten durum</i>	<i>Organic</i>
<i>Corn</i>	<i>Yellow</i>	<i>White</i>
	<i>High amylose</i>	<i>Organic</i>
	<i>Hard endosperm</i>	<i>Waxy</i>
<i>Beans</i>	<i>Clear hilum</i>	<i>High protein</i>
	<i>Low linolenic</i>	<i>High stearic</i>
	<i>High lysine</i>	<i>High methionine</i>
	<i>High peroxidase</i>	<i>Organic</i>
<i>Barley</i>	<i>Low protein</i>	
<i>Canola</i>	<i>Oil engineered</i>	<i>Oil premium</i>
<i>Sorghum</i>	<i>White interior</i>	
<i>Sunflower</i>	<i>High oil</i>	

SELECTIVE COMMODITIES PRODUCED UNDER MARKETING CONTRACTS - 1997, U.S.

<u>Commodity</u>	<u>% of Value Produced</u>
Barley	19
Canola	46
Corn	8
Cotton	33
Dry edible beans	3
Oats	3
Peanuts	41
Peas	9
Rice	31
Sorghum for grain	6
Soybeans	9
Sunflowers	8

CREATING VALUE

High-Oil Corn Example

Stakeholders

Agribusiness
Corn Producer
Dairy Producer

Situation

Cows Fed High-Oil Corn/Corn Silage

Results

Increased Production and Value

4.0 #/cow/day

60 cents/cow/day

Increased Cost

25 cents per/cow/day

Net Increase Profit

35 cents/cow/day

\$100 per cow/year

(Example Continued)

9 million cows in the U.S.

\$900 million increased value/year for U.S.

1 acre of corn/cow/year

9 million acres of corn year

\$100 increased value /acre

\$.80 increased value per bushel

A ROUGH EXAMPLE

PRELIMINARY EVIDENCE OF VALUE OF HIGH OIL CORN

	<u>\$/Bu</u>	<u>% of Use</u>
Dairy	\$.80	12
Hogs	.40	29
Poultry	.50	34
Beef	.55	25
Average Weighted by % Use	.52	

**U.S. feeds - 5.5 billion bu. of corn per year
- 5.5 million acres of corn silage per yr.**

\$ 3.5 billion extra corn value per year

\$27 billion present value @5%, 10 yrs.

WHO WILL CAPTURE THE VALUE?

Those With Market Power

Those With Knowledge

Those With Negotiating Skill

DISTRIBUTION OF VALUE ADDED

Risk assumed

Costs incurred

Bargaining ability

ESTIMATED VALUE ADDED PER ACRE FOR FUTURE PRODUCTS

Corn

HOC + High oleic	\$ 78
HOC + High lysine	83
HOC + High ly. + High Methionine	98

Soybeans

High oleic	28
High lysine	38
High lysine + High oleic	43
High lysine + High methionine	45
High lysine + Low saturated fat	48